DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

PROGRAM TO STRENGTHEN AND MODERNIZE ECONOMIC AND FISCAL MANAGEMENT (PHASE II)

(PN-0147)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

English:
http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata

Spanish:
http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata

ABBREVIATIONS

ANAM	National Environmental Affairs Authority [Autoridad Nacional de Ambiente]
CGR	Office of the Comptroller General of the Republic [Contraloría General de la República]
CIAT	Inter-American Center of Tax Administrators
COIN	Interagency Coordination Committee [Comité de Coordinación Interinstitucional]
DCBP	General Property Registry Directorate [Dirección de Catastro y Bienes Patrimoniales]
DCP	Public Debt Directorate [Dirección de Crédito Público]
DEI	Institutional Executive Directorate [Dirección Executiva Institucional]
DGI	General Revenue Directorate [Dirección General de Ingresos]
DGT	General Treasury Directorate [Dirección General de Tesorería]
DIPRENA	Budget Directorate [Dirección de Presupuesto de la Nación]
DNC	National Accounting Directorate [Dirección Nacional de Contabilidad]
DPI	Investment Programming Directorate [Dirección de Programación de Inversiones]
IMF	International Monetary Fund
IT	information technology
MEF	Ministry of Economic Affairs and Finance
MIPPE	Ministry of Planning and Economic Policy
PCU	Program Coordination Unit
PRONAT	National Land Administration Program [Programa Nacional de Administración de Tierras]
SIAFPA	Integrated Financial Management System of Panama [Sistema Integrado de Administración Financiera de Panamá]
SICE	Integrated Foreign Trade System [Sistema Integrado de Comercio Exterior]
SIDUNEA	Automated Customs System [Sistema Aduanero Automatizado]
SINIP	National Public Investment System [Sistema Nacional de Inversiones Públicas]

INTER-AMERICAN DEVELOPMENT BANK
Regional Operations Support Office
Operational Information Unit

PANAMA

IDB LOANS

APPROVED AS OF JULY 31, 2002

	US$Thousand	Percent
TOTAL APPROVED	**1,922,361**	
DISBURSED	1,460,668	76.0%
UNDISBURSED BALANCE	461,693	24.0%
CANCELLATIONS	391,925	20.4%
PRINCIPAL COLLECTED	674,430	35.1%
APPROVED BY FUND		
ORDINARY CAPITAL	1,598,647	83.2%
FUND FOR SPECIAL OPERATIONS	280,023	14.6%
OTHER FUNDS	43,690	2.3%
OUSTANDING DEBT BALANCE	**786,238**	
ORDINARY CAPITAL	704,351	89.6%
FUND FOR SPECIAL OPERATIONS	81,367	10.3%
OTHER FUNDS	520	0.1%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	177,769	9.2%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	72,718	3.8%
ENERGY	377,783	19.7%
TRANSPORTATION AND COMMUNICATIONS	422,829	22.0%
EDUCATION	125,945	6.6%
HEALTH AND SANITATION	128,613	6.7%
ENVIRONMENT	88,180	4.6%
URBAN DEVELOPMENT	69,244	3.6%
SOCIAL INVESTMENT AND MICROENTERPRISE	86,597	4.5%
REFORM _PUBLIC SECTOR MODERNIZATION	338,520	17.6%
EXPORT FINANCING	0	0.0%
PREINVESTMENT AND OTHER	34,164	1.8%

**** Net of cancellations with monetary adjustments and export financing loan collections***

Inter-American Development Bank
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Panama

Tentative Lending Program

2002

Project Number	Project Name	IDB US$ Millions	Status
PN0125	Training and Employement System Development	8.4	APPROVED
PN0145	Program to Foster Competitiveness	7.0	APPROVED
PN0148	National Land Management Program	27.0	APPROVED
PN0147	Fiscal Management II	10.0	
PN0149	Sustainable Develop. Province Bocas del T	16.2	
	Total - A : 5 Projects	**68.6**	
	TOTAL 2002 : 5 Projects	**68.6**	

2003

Project Number	Project Name	IDB US$ Millions	Status
PN0159	Improvement Integration Corridor PPP	49.0	
PN0152	Coast Zone Susteinable Management	5.0	
	Total - A : 2 Projects	**54.0**	
PN0139	Priority Activities in the Hydrografic Basin Panama Canal	5.0	
PN0141	Apoyo a la Economía Rural (PRORURAL)	25.0	
PN0143	Municipal Dev. and Community Participati	10.0	
PN0062	Panama City Sanitation Project	100.0	
*PN0154	Colon International Airport	35.0	
*PN0155	Bonyic Hydroelectric Proyect	10.0	
	Total - B : 6 Projects	**185.0**	
	TOTAL - 2003 : 8 Projects	**239.0**	
	Total Private Sector 2002 - 2003	**45.0**	
	Total Regular Program 2002 - 2003	**262.6**	

*** Private Sector Project**

PANAMA

STATUS OF LOANS IN EXECUTION AS OF JULY 31, 2002

(Amounts in US$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
1996 - 1997	8	215,536	88,929	41.26%
1998 - 1999	8	327,650	90,340	27.57%
2000 - 2001	4	79,378	1,863	2.35%
2002	2	15,400	0	0.00%
TOTAL	22	$637,964	$181,132	28.39%

* Net of Cancellations . Excluding export financing loans.

PROGRAM TO STRENGTHEN AND MODERNIZE ECONOMIC AND FISCAL MANAGEMENT (PHASE II)

(PN-0147)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Panama	
Executing agency:	Ministry of Economic Affairs and Finance (MEF)	
Amount and source:	IDB (OC):	US$10.0 million
	Local:	US$ 3.4 million
	Total:	US$13.4 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	4 years
	Disbursement period:	Minimum of 3 years, maximum of 4
	Interest rate:	Variable
	Inspection and supervision fee:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars under the Single Currency Facility (OC)

Objectives: The main objective of this program is to expand management capacity and strengthen fiscal administration in the public sector. Specifically, the following objectives are pursued: (i) enhance the MEF's planning capacity; (ii) strengthen financial management; (iii) make tax collection more efficient and effective; (iv) improve the quality of public investment; (v) expand the management and oversight capacity of the customs administration; and (vi) institutionally strengthen the land-registration system.

Description: The program comprises six components: (i) support for the MEF's Institutional Executive Directorate: (ii) strengthening of financial management; (iii) modernization of the investment system, (iv) strengthening of the tax system; (v) strengthening of the customs system; and (vi) support for the General Property Registry Directorate.

The Bank's country and sector strategy:

One of the Bank's development strategies assigns priority to boosting and enhancing social investment and economic growth in order to create jobs and reduce inequalities. Implementation of this strategy hinges on enhanced budgetary programming, administrative improvements in tax collection, and containing current spending of the public sector.

An important element of the Bank's strategy in Panama is institutional reform with an eye to enhancing governance and efficiency, especially administrative transparency of the State, as well as poverty reduction. Building the Executive Branch's capacity to plan, program, and monitor the financing of its national development program and to share this information with civil society is another important step in the process of modernization of the State. The Bank attaches high priority to developing capacity to program investments, to raise tax collection levels by means of efficiency and equity improvements, as this provides resources to ensure the sustainability of social programs, and to manage the debt more efficiently.

Environmental and social review:

The program is not expected to have any adverse social or direct environmental impacts. It will yield significant social and environmental benefits by promoting public awareness and disseminating information to interested groups on environmental and social issues related to investment projects under the investment system subcomponent. A review was conducted of the investment project cycle to ensure that all stages of preparation up through execution take into account the environmental and social variables developed within the framework of loan 1222/OC-PN "National Environmental Program", approved in 1999. The data registered by the National Public Investment System (SINIP) and the Integrated Financial Administration System of Panama (SIAFPA) will be the government's basic source of public information.

Benefits:

The program will help the authorities to consolidate a management system as a tool for strengthening modernization of the State in the areas of self-financing, decentralization, citizen participation, and economic and fiscal auditing. It will also enhance the quality of institutional performance, promoting a culture of responsibility and the duty to pay taxes; it will make for more efficient governance; it will lower the costs of public administration; and it will sustain the financing of the government's social programs.

Risks:

The risk posed by the elections and possible change of government in 2004 will be mitigated as follows: (i) the government—old or new—must comply with the Fiscal Responsibility and National Reactivation Act of May 2002; (ii) there is agreement on the need for the advances that will be secured under the new program; and (iii) despite the change of government that took place during phase I, the structure of the executing unit was not changed and there were no delays in execution. Phase II will keep the same execution unit (paragraphs 3.1-3.9).

Special contractual clauses:

Disbursement will be subject to the following special conditions precedent: (i) the executing agency is to have engaged the services of the United Nations Development Programme (UNDP) to administer program resources and to conduct hirings for the program under terms and conditions agreed upon in advance with the Bank; and (ii) the program's operating regulations are to have entered into effect under terms acceptable to the Bank (paragraph 3.8).

As a special condition precedent for disbursement under component 4, the executing agency is to have engaged the Inter-American Center of Tax Administrators (CIAT) to execute that component under terms and conditions agreed upon in advance with the Bank (paragraph 3.7).

As a special condition precedent for disbursement under the National Accounting Directorate subcomponent of component 2, the executing agency is to have signed an interagency agreement with the Office of the Comptroller General of the Republic (CGR) defining the transfer of government accounting functions.

Poverty-targeting and social sector classification:

This operation does not qualify as a social-equity promoting project, as described in the core objectives for the Bank set forth in the report on the Eighth General Increase in Resource (document AB-1704).

Exceptions to Bank policy:

As an exception to the process of international competitive bidding and in conformity with policy GS-403, it is recommended that CIAT be hired directly to execute the component to strengthen tax administration (paragraph 3.12) and that UNDP be hired directly to administer procurements for the program's other components (paragraph 3.13).

Retroactive recognition of expenses:

As an exception in the area of retroactive recognition of expenses (OP-504), it is recommended that expenses up to the amount of US$550,000 be recognized retroactively against the local counterpart (paragraph 3.17).

Procurement:

Goods and related services and consulting services will be procured in accordance with applicable Bank policies and procedures.

International competitive bidding will be used for procuring goods valued at US$350,000 equivalent or more and consulting services valued at US$200,000 equivalent or more. Procurements for lesser amounts will be conducted in accordance with national legislation, provided such legislation does not contradict the Bank's basic procurement guidelines. Phase II does not call for any works contracts.

I. FRAME OF REFERENCE

A. Background

1. Macroeconomic context

1.1 During the 1990s, Panama enjoyed sustained economic growth, with constant per capita increases in GDP, as a result of fiscal equilibrium, substantial increases in private investment, and a major structural reform package. The economic scenario was influenced by increased activity in the ports sector, in the Colón Free Zone, and in tourism.

1.2 Following the growth spurt in the 1990s, the Panamanian economy experienced a slow-down triggered by the withdrawal of U.S. military bases, contraction of domestic demand, and the cooling off of the global economy, all of which weakened external demand for the country's goods and services. GDP displayed real growth of only 0.3% in 2001, which represented a contraction of GDP in per capita terms.

1.3 The difficult economic situation that the country is currently experiencing—reflected in slower economic activity since 2000, non-acceptance of the 2002 budget, and an increase in the fiscal deficit—has led the government to adopt a package of measures geared towards reactivating the economy and reducing the fiscal deficit. Accordingly, after a long process of negotiation with civil society, the Legislative Assembly adopted the Economic Reactivation and Fiscal Responsibility Act (Law 20) in May 2002. The act has three core components. The first provides for the use of assets that were reverted to the State in order to finance a series of projects. The second addresses fiscal responsibility measures, establishing that the fiscal deficit in the nonfinancial public sector may not exceed 2% of nominal GDP in any fiscal period. Furthermore, given the government's concern with the high level of indebtedness, the following targets were set in this area: the ratio of total public debt to nominal GDP may not exceed 50% and the ratio of net external debt to nominal GDP may not exceed 0.35%. The third component authorizes the use of up to 200 million Panamanian balboas from the Development Trust Fund (set up using proceeds from privatizations) for large-scale works, specifying that the remaining amount in the Fund (roughly 1 billion balboas) may only be invested in bonds and public securities bearing an excellent rating.

1.4 The March 2002 report on the International Monetary Fund (IMF) program in Panama underscored the country's achievements, especially in terms of bank strengthening. It also pointed to the need to continue efforts to get the financial system back on a sound footing, particularly Banco Hipotecario and Banco de Desarrollo Agropecuario, and the need to implement deep reforms in the Social Security Fund and to increase tax collection levels. These areas form the basis of the conversations being held between the authorities and the IMF with a view to reaching a new three-year agreement as of 2003.

2. Fiscal management

1.5 Over the past five years, financial administration has undergone a process of modernization, with a notable trend towards unifying public policies and creating systems that make reliable and timely information available to those responsible for managing public finances.

1.6 In 1997 the Bank approved the Program to Strengthen and Modernize Fiscal and Economic Management (1004/OC-PN), which was disbursed in full in the first half of 2002. The program facilitated and complemented the authorities' efforts to reform fiscal management. In mid-2002, and coinciding with the last disbursement, a team of Bank officers and international consultants conducted an evaluation of the loan. Section B below outlines the progress made by the program. (The project files contain a comparative table of phases I and II that outlines the scope of each component and activity, as well as the activities to be financed.)

1.7 With the creation of the Ministry of Economic Affairs and Finance (MEF) pursuant to Law 97 of December 1998, two ministries were merged: the former Ministry of Planning and Economic Policy and the Ministry of Finance and Treasury. The MEF's revenue and expenditure functions were divided between two vice-ministries: Economic Affairs and Finance. The former is responsible for the design and formulation of economic and social policy, financial management functions, and investment systems. The latter is responsible for the administration of taxes, customs, and the property registry. The new ministry (MEF) is still in a transition phase to consolidate its functions and become the policy-setting agency for public finance.

1.8 In 2000, the MEF—using proceeds from loan 1004/OC-PN—implemented the Integrated Financial Management System of Panama (SIAFPA) as the official system for recording data from throughout the country's financial and budgetary management system. This opened the way for unifying application of accounting standards, decentralizing the recording of transactions, and launching a process to gather, in real time, financial information on public-sector budget execution and financial statements. The system seeks to integrate, over the medium term, the budget, public investment, and revenue subsystems of all public institutions, including the municipalities. This tool will enable the MEF to manage the budget and fiscal accounts in real time over the Internet.

1.9 The evaluation of phase I found that many of the program's objectives had been achieved. Specifically, in the financial management area: the SIAFPA was designed and implemented at the central government level; the General Treasury Directorate was set up, with the function of paying service providers; and the first stage of implementing the integrated account in the Treasury was completed. In the tax administration area: a tax control plan was designed and implemented with an eye to modernizing the tax system, and a proposal was formulated to reorganize and simplify the tax system (to be presented to the Legislative Assembly). In the customs administration area: customs services were upgraded through automation of processes and procedures and the subcontracting of communications to users through the Internet; under the investment system subcomponent, activities were limited to the preparation of guidelines and training of government officials involved in project formulation at the central and provincial level – not all the activities planned in this area were carried out, owing to an agreement between the Bank and the authorities to channel program resources to establishing the SIAFPA. In the area of property registry administration: plans were drawn up to improve the supply of information to the public, set up a property-registry information system, and update the procedures of the General Property Registry Directorate in May 2002.

1.10 The activities planned under the new phase of the program (see Section B) seek to make fiscal and financial management more efficient and more effective. Accordingly, the program is geared towards institutional strengthening of the system's policy-setting agency (MEF) and its units. Also included is the implementation of modern procedures, installation of new computer hardware, technical training, and establishment of a public-information policy with civil society.

1.11 A number of draft bills are pending adoption, including the Financial Management Act and the Tax System Streamlining Act, which will enhance the performance of financial management. Although this legislation complements the activities to be financed hereunder, its adoption will not affect the administrative reform proposed under phase II.

B. Conceptual basis for the program

1. Institutional strengthening of the DEI and MEF

1.12 The Institutional Executive Directorate (DEI), which reports to the Deputy Minister for Economic Affairs and the Deputy Minister of Finance, was created with the objective of formulating and promoting institutional policies aimed at maintaining efficient, effective management to enable the MEF to fulfill its assigned responsibilities. To complement and strengthen the program's objectives, subsidiary legislation must be passed for the act creating the MEF, so as to define unit functions and implement a structure that is consistent with the legislation and with the MEF's priorities in terms of financial management.

2. Financial management

1.13 Consolidation at the national level of an integrated financial management system and optimization of techniques for the formulation, execution, accounting, and control of the public budget are among the objectives sought by the authorities. To achieve them, efforts must receive the support of the activities proposed herein.

1.14 The MEF manages these activities by way of the Budget, Accounting and Public Debt Directorates, under the Deputy Minister for Economic Affairs; the General Treasury Directorate, under the Deputy Minister of Finance; and the Information Technology Directorate, which reports to the Minister and was designed to integrate financial and budgetary information, known as the SIAFPA.

1.15 All government institutions have an administration and finance directorate, which includes departments for budget, accounting, procurement, and treasury with responsibility for recording the institution's revenue inflows and outflows in the SIAFPA. Each ministry's budget department drafts a budget proposal and submits it to the MEF. Upon approval, the budget is entered in the SIAFPA system.

1.16 The functions of budgetary and financial accounting, treasury, and debt recording are being transferred from the Office of the Comptroller General of the Republic (CGR) to the MEF. Accordingly, adjustments will need to be made in the ministry's structure so that the agencies and units involved in financial management can operate in an integrated fashion and benefit from full familiarity with the concepts and methodologies inherent in the handling of public finances. The following MEF directorates play an important role in financial management:

1.17 The *Budget Directorate* (DIPRENA) prepares and monitors execution of the national budget based on estimated revenues and expenditures. The evaluation of phase I (1004/OC-PN) identified: (i) the need to define an indicator-based methodology and to measure the performance of government management, which in turn is a result of the use of spending categories rather than program-based spending; (ii) poor integration of the revenue module in the SIAFPA, thus limiting the timely availability of information for programming expenditures on the basis of revenue; and (iii) lack of a training strategy for DIPRENA staff.

1.18 The *General Treasury Directorate* (DGT) performs the following activities: prepares the cash budget with the objective of making the best possible use of public funds, identifies temporary resource requirements, and makes bond payments against the treasury. Since 1997, the treasury functions, which had been performed by the CGR, have been in a transition period. The DGT performs the function of paying suppliers, which currently takes an average of up to 120 days; this has led suppliers to increase their prices in order to finance the time lag. Similarly, the government currently operates 3,200 current accounts with a total average balance of US$500 million, with the resulting increase in financing costs for the government. In view of the foregoing, in May 2002, Ministerial Resolution 072 was adopted approving the creation of the integrated account, providing the DGT with the institutional and operational framework to manage the resources of the national treasury.

1.19 *Public Debt Directorate* (DCP). Decree 70 of 2002 reorganized the MEF's Public Debt Directorate to ensure "the efficient programming, use, and control of financing means obtained through public credit operations". This reorganization consolidated the functions related to debt management, which had theretofore been performed by the Treasury Directorate and the DCP. The DCP's role is to program and negotiate funds on domestic and international financial markets in order to fund public investment projects and cover possible fiscal deficits. The evaluation of phase I identified some weaknesses in the standardization of bonds, portfolio integration, and delimitation of the debt-related functions to be performed by the CGR and the DCP. The DCP needs technological strengthening and training of its staff so as to obtain the maximum benefit for the country in financial markets. In May 2002, Law 20 was passed containing a number of measures for economic reactivation and fiscal responsibility, and establishing basic definitions for public debt and public borrowing levels (see paragraph 1.3).

1.20 *National Accounting Directorate* (DNC). Established pursuant to Law 97 of 27 July 2000, the DNC is responsible for preparing the consolidated financial statements of the public sector. Accounting and audit functions are distributed between the CGR and MEF. Currently, the CGR compiles accounting information and consolidates financial statements at the sector level, which are functions that belong to the DNC. Ministerial Resolution 072 approved a proposal to restructure the DNC to enable it to oversee the public sector's financial and budgetary accounting and to produce reliable consolidated financial reports using modern technology.

1.21 *National Directorate of the Integrated Financial Management System of Panama* (SIAFPA). This office, which is responsible for the information technology component, was created to integrate budgetary accounting and financial accounting, based on inputs from the budget, treasury and public debt systems, known as SIAFPA; in the future, it will integrate the modules for revenue, inventories, fixed assets, and public investment. The government currently has to wait two to three months to obtain consolidated financial reports of the State. This directorate will pursue strategies aimed at making system users as independent as possible, ensuring interfaces between the modules that complement the SIAFPA, and seeking the technical feasibility of replacing the client-server technology with an Internet-based environment, which would provide real-time information on the cost of public contracts. The need has also been identified to extend the SIAFPA to the decentralized financial public sector and to improve the system's security.

3. Public investment system

1.22 The public investment budget is the principal tool for management, control and evaluation of attainment of the public sector's physical targets. The government has attached priority to strengthening the budget's institutional and management weight by creating the National Public Investment System (SINIP) by presidential decree (11 December 2001). Participation in the system is mandatory for all public institutions. The Investment Programming Directorate (DPI)—the coordinating agency for public investment—has been assigned the new function of steering and supporting public-sector institutions in defining their plans and projects.

1.23 In phase I, part of the MEF's efforts were directed towards monitoring the SINIP to ensure the technical, economic, social, and environmental quality of projects proposed and executed by the institutions, and ensure their consistency with the objectives of the government's plans and programs. The SINIP was also strengthened in terms of planning, programming, and budgeting. Significant headway was made with the conceptual approach, establishing methodologies for project formulation and evaluation. Although a large part of the budget for this component was transferred to the SIAFPA to finance its start-up, it was possible to build a database of the main projects included in the national budget.

1.24 Ministerial Resolution 779 of the MEF, issued in late 2001, reorganized the DPI into three units: information systems; training and programming, and investment monitoring. This reorganization, which is still under way, will enable the DPI to regulate and oversee the implementation of new applications technologies and methodologies that are needed for project formulation and evaluation, organizing a network of banks of the institutional projects it coordinates. With support from an information-technology platform, a system will be developed to monitor and control physical and financial performance. This will require agreement on common technical procedures between the DPI and DNP, since not all projects are identified in detail in the national budget. Following the operating processes and methodology stipulated in the manuals, the training effort will be specific to the system and individual sector of each type of project.

1.25 The DPI currently is engaged in a significant effort to support the Control Tower Program, which has been promoted since 2001 by the Vice President of Panama. The system consists of a communication and information network (website) to provide authorities and users with real-time access to the execution status of the budget. Project execution data will be updated regularly, specifically with regard to physical and financial progress and results. The system's pilot phase will be launched with the projects of the Housing Ministry, with linkages to the SIAFPA as concerns data on financial execution. The project bank to be supported through phase II, which is integrated with the SINIP, will be fundamental to ensuring the accuracy and quality of information to be transmitted through the "control tower".

1.26 In view of this situation, there is a need to: (i) fine-tune and give institutional impetus to the SINIP's policies and regulations; (ii) define a solid technical linkage (classifiers and procedures) with the budget system, which is a topic that must be addressed urgently in order to begin the monitoring and control process in 2003; (iii) organize an institutional network for the entire public sector to develop the project bank (operating in an integrated fashion with the SIAFPA) and to provide data to the "control tower"; (iv) adjust the institutional organization of the DPI and the institutions to ensure proper operation of the SINIP; and (v) deepen support for the training of staff of the DPI and other government agencies that promote investment projects.

4. Tax administration

1.27 During phase I, this component was geared towards streamlining and reorganizing the tax system and strengthening tax administration, specifically through support for: (i) preparation of a diagnostic study and concept paper that culminated in the draft legislation on reorganization and streamlining of the tax system, which will be submitted to the Legislative Assembly; the legislation makes some important changes to the tax system, fine-tunes procedures governing the relationship between the internal revenue service and taxpayers, and establishes the administrative, functional, and financial autonomy of the General Revenue Directorate (DGI); (ii) reestablishing and improving procedures for updating the taxpayer registry; (iii) improved tax-return processing; (iv) collection of data on third-party payments so as to verify declared tax; and (v) initial development of the new "e-tax" system to collect and track tax liabilities in a Web-based environment, using the conceptual framework of the Tax Solutions system of the Inter-American Center of Tax Administrators (CIAT).

1.28 As a complement to program 1004/OC-PN and drawing on internal resources, the government is executing with CIAT a US$3.9 million program for comprehensive modernization of the tax system, slated for completion by year-end 2002. The program activities include: (i) provide the tax administration with information-technology (IT) applications to perform basic collection functions and conduct systematic controls of tax declared by taxpayers through data cross-checks; (ii) outfit the DGI with the necessary computer equipment; and (iii) continue execution of the Tax Control Plan, which includes control actions in the indicated areas, inasmuch as the activities performed under the plan are yielding satisfactory results and the government intends to deepen the progress made.

1.29 Despite the headway made under program 1004/OC-PN and the achievements secured under the government's program for comprehensive modernization of the tax system, factors continue to exist in the DGI that affect the effectiveness of administration, such as: (i) insufficient professional level of its human resources, (ii) heavy reliance on the MEF's Information Technology Coordination Unit in the IT area; and (iii) problems adequately managing its financial and physical resources.

1.30 Specifically, the DGI needs to continue its strengthening process in order to overcome existing weaknesses and to: (i) implement institutional-planning mechanisms based on tax and management control studies that cover all DGI areas; (ii) enhance the oversight process, especially during stages related to the investigation of sectors subject to control, preparation of structural measures to prevent evasion, selection of cases to be audited, and execution of audits; (iii) strengthen new IT processes and address real-time data issues in systems administered by the Information Technology Coordination Unit; (iv) formulate a communications policy to support better tax compliance by taxpayers; (v) have available a human-resources management system that fosters professionalization through administrative career tracks and proper training; (vi) manage financial and physical resources allocated to it, so as to possess adequate operating capacity; and (vii) install internal control mechanisms for tax administration actions.

5. Customs administration

1.31 The Bank has been supporting modernization of the customs administration since 1992 by way of the Public Enterprise Reform Program (690/OC-PN), with the automation of customs declarations and implementation of a customs-management IT application (SIDUNEA), developed by the United Nations Conference on Trade and Development.

1.32 More recently, under loan 1004/OC-PN, the government supported efficiency and effectiveness enhancements to customs operations by adopting a new application known as the Integrated Foreign Trade System (SICE) to address technical obsolescence and functional constraints of the SIDUNEA. The support provided by the subcomponent focused on: (i) the design and simplification of basic customs operating procedures to improve control of import operations, time spent in customs warehouses and in transit, and collection of duties, as well as establishment of means to make statistical data available; this design was automated within the SICE, which was developed and implemented under a government concession with General Business Machines; (ii) review of the customs code for presentation to the Executive Branch; and (iii) technological and operations training in the new automated procedures.

1.33 Despite the progress made under program 1004/OC-PN, the role played by the customs service as an agency to collect and receive government funds was considerably different from the one it had performed previously. Today, pursuant to rules agreed upon in the framework of the World Trade Organization, customs services are called upon to help facilitate trade. Accordingly, they should coordinate with other government agencies to ensure security and protect health and the environment. These demands require adapting the organization, infrastructure, procedures, and training of staff to perform the new functions or strengthening those already assigned to them, rising to the challenge of compliance from a perspective of efficacy and efficiency based on best technical and technological practices.

1.34 Against this backdrop, the customs service needs to review its management and control procedures in order to attain the objectives called for in the new framework in which international trade is conducted. This will mean strengthening risk analysis so as to ensure effective control and efficient operations, with professional, responsible staff that has received proper training, stability in the performance of the functions, and an appropriate compensation system that fosters efficiency and effectiveness. The customs service also needs to have the IT and operating tools and infrastructure needed to fulfill its function.

1.35 The objectives of effectiveness will be pursued in two areas through specific actions. In the area of formal international trade (i.e., that conducted on the basis of customs declarations), there will be a change in the philosophy as to the timing and methodology of control. In line with tested best practices, the point at which merchandise should be examined should be established by the importer or, alternatively, after the merchandise has been delivered to the importer, as this reduces storage and handling costs. This method is based on the technical customs audit of operations and operators on the basis of risk profiles; professional performance of this action produces effective control. In the area of informal trade or illicit trade (contraband) for which there are no customs declarations, it is necessary to formalize agreements with other countries, improve the service's information system and data exchange with other government agencies, train staff in techniques for investigating and curbing illicit acts, and have equipment and infrastructure available for detecting such infractions.

6. General Property Registry Directorate

1.36 Over the past decade, land-use planning has evolved from centralized sectoral planning of land use to a participatory process of analysis and development planning.

1.37 The Bank has contributed to development of this area through technical and financial support for the institutional and operational functions of the MEF's General Property Registry Directorate [Dirección de Catastro y Bienes Patrimoniales] (DCBP) by way of program 1004-OC/PN, and through support for the regularization of urban and rural property (except for the greater metropolitan area of the country) by means of the National Land Administration Program (PRONAT) (proposed loan operation PN-0148), which is in the approval process and will complement the geographic coverage of a World Bank operation.

1.38 These operations support the DCBP in designing a cadastral information system, building technical capacity, and modernizing the technology used. Program 1004/OC-PN also supported the establishment of a taxpayer service center, which has helped to improve the quality and speed of property transactions and registration. The cadastre administration component of phase I sought *inter alia* to adjust the organizational and legal structure of the General Property Registry Directorate and to implement new IT tools and technologies to digitize documents, diagrams and cadastral maps. The subcomponent was executed through the following activities: (i) amendment of the Property Tax Act, lowering the level of tax exemptions and enhancing the mechanism for updating property values; (ii) modernization of the organizational structure and physical facilities of the General Property Registry Directorate, especially the IT and archive structure; (iii) consolidation of the integrated tax information system and strengthening of human resources; (iv) establishment of new calculation techniques and methodologies in the areas of valuation, cartography, and property tax tracking; and (v) implementation of a training plan.

1.39 These operations will also generate a significant amount of information on land use as a result of the review of titles, the titling of property, and the official registration of titles. For the tax structure to operate correctly, the information thus generated needs to be shared by the three institutions that use it (the Public Registry, DCBP, and DGI).

1.40 The component to support the DCBP under phase II will seek to build a database that is shared by the Public Registry, the DCBP, and the DGI in order to coordinate registration, title transfers, and tax collection, and thus speed up property transactions and make them more secure.

1.41 The database of property valuations is obsolete and, as a result, limits revenue potential and has contributed to widening the fiscal gap. Pursuant to a recent valuation, a sample of 411 properties that paid US$700,000 in annual taxes are now paying US$3.7 million in property taxes based on the updated value. To update the database and raise collection levels, the program will expand the pilot plan launched in 2001, which revised and updated the property tax database for part of Panama City; this pointed up the need to update the database, which was last updated 30 years ago. Supporting this component will make it possible to conduct valuations for the main sectors of the province of Panama and other major cities. Revenue from the property transfer tax had also suffered as a result of low valuations.

C. The Bank's strategy in the country

1.42 One of the Bank's priority objectives is reform and modernization of the State in its borrowing member countries. Institutional reform is an important feature of its strategy, as a means of enhancing governance and efficiency, especially the administrative transparency of the State, as well as poverty reduction. Building the Executive Branch's capacity to plan, program, and monitor financing of the national development program and sharing this information with civil society are key steps in the process of modernization of the State. The Bank attaches high priority to developing capacity to program investments and increase tax revenues by means of efficiency and equity improvements (which in turn provide resources that ensure the sustainability of social programs) and to manage its debt more efficiently.

D. The country's strategy

1.43 The government's development strategy, as outlined in country paper GN-2136-1 of May 2001, attaches priority to increasing and enhancing social investment and economic growth to create jobs and reduce inequalities. Implementing this strategy hinges on enhanced budgetary programming, administrative improvements in tax collection, and containing the public sector's current expenditure.

1.44 In August 2001, the government approached the Bank for support in consolidating the efforts launched under loan 1004/OC-PN to improve its fiscal and economic management. The present operation seeks to strengthen tax and customs management, while deepening support for the programming of investments and consolidation of financial management efforts (including extension of the SIAFPA to the financial sector), and strengthening of administration of the property registry system.

E. Recent Bank experience with modernization of the State

1.45 **Strengthening and Modernization of Public Management (1004/OC-PN**). The Bank has supported the authorities in strengthening public management since 1997, through such means as this operation, whose main objective was to expand macroeconomic and fiscal management capacity and strengthen financial management in the public sector. The final disbursement of the loan was made in 2002.

1.46 The Bank has experience with six programs in Panama in the area of modernization of the State: a financial modernization program (1073/OC-PN) and a financial sector program (1074/OC), aimed at improving the regulatory framework of the financial and banking sector, privatizing part of the financial sector, promoting a financial market, and improving the security of transactions; a judicial reform program that is currently under way (loan 1099/OC-PN); a program to reform the legislature (923/OC-PN); and two programs to privatize telecommunications, power generation, water, and other public services (969/OC-PN and 970/OC-PN). It also has experience with similar operations in Peru, Argentina, and Uruguay, among others.

1.47 This experience offers the following lessons for the program: (i) keep abreast of the policy context in which the project is carried out; (ii) modernization of the State is a social and political process that involves a broad gamut of people, some in favor and others opposed, which makes it essential to include stakeholders and identify their interests and motivations; an effort needs to be made to keep those affected by the program informed and to provide benefits and minimize costs to them, as was done in the case of the meetings proposed between the CGR and MEF, and (iii) programs—or at least their objectives—must be consensus-based. Phase II with be launched with a start-up workshop. The program will reinforce the objectives pursued by the Economic Reactivation and Fiscal Responsibility Act, which resulted from national, consensus-based dialogue this year.

F. Program strategy

1.48 The new challenges of minimizing the level of internal and external indebtedness by increasing tax collection levels, the urgent need to control tax evasion, the return of the Canal to the government (which will require an investment of approximately US$1 billion to modernize it), the country's fiscal problems, as well as the new opportunities offered by information technology to enhance efficiency in fiscal management, and the experience gained in phase I all justify a second operation.

1.49 This operation is intended to shore up the process of fiscal management improvement launched under phase I. Tax collection and budget management will be improved, thus making for greater transparency in public management and allowing civil society to play a greater role in the country's fiscal management. In this regard, the Public Management Transfer Act was passed in January 2002, calling for greater transparency and timely information on public finances. The program comes at a good time, given the backdrop of the country's current economic slowdown, the process of globalization, and international pressure to observe standards of transparency in the tax regimen.

II. The Program

A. Objectives and description

2.1 The main objective of the program is to increase public-sector efficiency and effectiveness in the economic and fiscal spheres. It pursues the following specific objectives: (i) enhance the MEF's planning capacity; (ii) strengthen financial management; (iii) make tax collection more efficient and effective; (iv) improve the quality of public investment; (v) expand the management and oversight capacity of the customs administration; and (vi) strengthen the institutions of the land-registry system.

2.2 The program comprises six institutional-strengthening components to achieve these objectives: (i) the MEF: (ii) financial management; (iii) the tax system, (iv) the customs system; (v) the investment system; and (vi) the General Property Registry Directorate.

1. Institutional strengthening of the MEF (US$215,000)

2.3 This component will seek to ensure that the MEF has regulations to complement its founding legislation and a structure that enables full application of institutional policies in the area of public finance. The program will lend support to the DEI to: (i) study the institutional framework creating the MEF, including review of the regulations; (ii) formulate the institutional development plan; (iii) harmonize the MEF's basic structure; and (iv) formulate proposals to increase legal security as a means to support strengthening of its institutions and agencies.

2. Strengthening of financial management (US$2,450,000)

2.4 This component will seek to streamline processes and decisions on public spending, investment, and borrowing by integrating and consolidating financial management components and implementing the SIAFPA in agencies involved in financial management. The following subcomponents will be carried out:

a. Budget Directorate (DIPRENA). To improve budget management and make it more expeditious, accurate, and transparent, the following activities are planned: (i) design a methodology to review the programming structure of the national budget; (ii) conduct a diagnostic study of the current programming structure; (iii) define and implement a new programming structure aimed at making the budget a means for administering public management and assessing its performance in physical and financial terms; (iv) incorporate the interface with the public revenue subsystem into the budget cycle; and (v) train its staff in the new methodologies adopted.

b. General Treasury Directorate (DGT). Plans are to reduce the government's current financing expenditures by: (i) consolidating efforts to secure full implementation of the Treasury, reducing the time for payment to service providers from 120 to 30 days; and (ii) carrying out the program to implement an integrated account system in the Treasury, which will centralize the current 3,200 accounts into a single account for each ministry, cutting the daily average balance from US$500 million to US$150 million, with a respective decrease in interest.

c. Public Debt Directorate (DCP). The costs of managing the public debt will be reduced by improving external and internal debt management. The following activities will be carried out: (i) finalize the transfer of debt registration and payment functions between the MEF and CGR; (ii) support streamlining of the debt registration and payment process; and (iii) design and adopt a quality-control methodology for data entered in the SIAFPA and reports on public debt management.

d. National Accounting Directorate (DNC). The following activities will be carried out: (i) formulate procedures to verify the quality of accounting information; (ii) define the methodology for consolidating the public sector's financial statements; (iii) design methodologies for financial and economic analysis of consolidated financial statements; and (iv) support implementation of the DNC training plan.

e. SIAFPA. The following activities are proposed: (i) fine-tune and extend the SIAFPA to the decentralized public sector and local governments selected by the Government of Panama; (ii) define a standardization plan for the SIAFPA; (iii) incorporate into the SIAFPA interfaces with other related systems, e.g., revenue, investment, and the integrated account of the Treasury; and (iv) design back-up and contingency plans for the SIAFPA. Full implementation of the SIAFPA throughout the public sector is expected to bring an increase in the sector's productivity, a decrease in public procurement costs, and greater transparency and control in execution of the budget.

3. Modernization of the public investment system (US$2,153,800)

2.5 The general objective of this component is to strengthen the planning, programming, and control of the public investment budget so the public sector can pursue investment options that yield the highest returns and are the most consistent with the government's macroeconomic targets. The key element of this strengthening is the "control tower"—an information system built on a Web application coupled with Intranet-based communication as a core component of the SINIP—that will provide information on the public sector's investment project portfolio to the entire country.

2.6 This objective will be pursued by means of: (i) a review of the SINIP's regulatory framework to establish regulatory and operating standards that define technical and procedural relationships between the Investment Programming Directorate (DPI) and the MEF's other directorates and the network of institutions linked to the system; (ii) a review of procedures for setting priorities among projects and their consistency with public policy, and a review of methods of economic, social, and environmental evaluation of investments, with due technical and procedural linkages with the preinvestment area; (iii) review of the manual on the SINIP's conceptual, methodological, and procedural framework; (iv) design and set-up of a public investment project bank, linking the full network of institutions and coordinated by the DPI (control tower); (v) definition of the institutional organization of the DPI and institutions to support operations of the SINIP and the project bank network; and (vi) implementation of a self-sustaining training plan that draws directly on the conceptual and methodological aspects as defined and on the operational development of the investment project bank in connection with the SIAFPA systems.

4. Strengthening of the tax system (US$3,382,500)

2.7 This component will seek to enhance the efficiency, effectiveness, and equity of tax collection through institutional strengthening and improved management of the tax administration, targeting an annual increase in collections of roughly 2% at the end of execution of this program. The following activities will be carried out:

a. With the objective of implementing procedures for institutional planning and management control: (i) studies will be conducted on evasion and on key economic sectors to provide input for the institutional plans; (ii) the single taxpayer registry will be evaluated and courses of action will be proposed to give the General Revenue Directorate (DGI) better knowledge and more information on the units administered; (iii) management control and planning methodologies will be established for all areas; and (iv) the organizational structure of the action programs adopted will be reviewed and adapted.

b. To implement effective controls and combat tax evasion: (i) capacity will be created for investigating and detecting tax evasion; (ii) new computer systems will be set up to support inspections; (iii) the implementation of structural measures to prevent evasion will be assessed; (iv) specific audit techniques will be developed by economic sector; and (v) auditors will be provided with computer-based means for their field work.

c. Strengthening of IT resources: (i) the DGI will receive support to consolidate its IT independence within the framework of policies defined by the MEF and the exchange of information that must necessarily occur with other areas of the government; (ii) support will be provided to develop and administer its own systems; and (iii) infrastructure will be reinforced and updated to manage electronic data systems.

d. Establishment of institutional communication policies: (i) policies will be established to foster better compliance with tax obligations by taxpayers; and (ii) large-scale, permanent channels of information on the tax system will be put in place, aimed both at the community and at the system internally.

e. To promote professionalization in tax administration and boost operational capacity, support will be provided for: (i) creation of a unit to coordinate staff training and management; (ii) implementation of specific procedures for the selection, hiring, evaluation, and promotion of employees under the current Administrative Career Act; (iii) design and implementation of training plans, with emphasis on the areas of tax control and inspection; and (iv) application of management procedures that allow the DGI to administer more expeditiously the physical and financial resources assigned to it.

f. With regard to internal control, the program will promote the formalization of procedures by means of guidelines or manuals and will establish internal control procedures.

5. Strengthening of the customs system (US$2,448,700)

2.8 This component seeks to reduce the transaction costs of international business, reduce the importation of unhealthy or illicit products, reduce the percentage of imported contraband, and increase compliance with the payment of duties by importers, by strengthening the customs administration in the following areas:

a. In the area of human resources and training, the goal is to enhance the professional level of staff in performing their assigned functions by: (i) identifying each employee's profile in order to place them in the appropriate function; (ii) drafting guidelines for the hiring, leaving, transfer, and continued service of staff within the institution, as well as designing and implementing a compensation system applicable to the customs administration on the basis of criteria of dedication, productivity, and responsibility; and (iii) designing and disseminating the necessary training for each function in the areas of operations, oversight (especially audit techniques), and administration.

b. In the area of customs procedures: (i) review and evaluate current, automated procedures in the SICE with a view to streamlining the office's operation; (ii) design and implement new operating and control procedures for the office's customs systems and ex ante and ex post inspection activities that are not automated in the SICE (control of export cargo, inward and outward processing trade, passenger control, ex post control, and audit); and (iii) enhance inspection activity by designing and implementing a methodology to better analyze and identify fiscal risk.

c. In the area of administrative procedures: (i) review existing management processes; and (ii) design new procedures with an eye to reducing processing and documentation requirements, giving preference to computerized and digital processing of both internal processes and those that affect users (implementation of digitized files by way of electronic data exchange, scanner, e-mail, and digitalization of documentary archives).

d. In the regulatory area: (i) prepare and implement regulations to operationalize staff management rules designed in the human resources area; (ii) prepare and implement the necessary regulations for application of the new operating, inspection, and administrative procedures to be designed; and (iii) prepare draft legislation defining infractions and sanctions so as to give force to inspection activity, reflecting the new reality of international trade (facilitation and control).

e. In the area of organization and management: (i) review and implement a structure that is suited to the new procedures to be designed, identifying profiles for each position; (ii) establish a management system designed to pursue objectives and decentralize human-resource functions, equipping it with a methodology and tools to carry out effective internal management control; and (iii) adopt and implement a total quality program (in accordance with the ISO 9000 standards) on the new operating, inspection, and administrative procedures. The objective of this program is that a third party, independent from the customs administration, participate in the design, implementation, and maintenance of processes in the post-loan phase, so as to guarantee to the government the quality of the modernization actions undertaken and their sustainability over time.

f. In the area of IT development, strengthen the customs administration in the development and maintenance of its applications by: (i) supporting the transfer process to the customs administration, as necessary, for the development and maintenance of the SICE and the new management applications to be implemented (new SICE modules, passenger control, and digitalization of files) by engaging consulting services for support and training of customs officers; and (ii) purchasing licenses for new applications (redesigning the platform into servers, human-resources management software, and e-mail).

g. In the area of equipment, communications, and infrastructure, the goal is to provide the institution with the means to effectively perform its inspection task and fulfill its function to eliminate contraband by: (i) assisting with the preparation of bid documents and the work of the technical award committee to procure IT and communications equipment and its maintenance, and (ii) supporting the institution in its efforts to control contraband, providing it with such tools as connections for mobile units, equipment to scan passengers' baggage, and detectors of organic matter.

h. In the area of communications and image, to bring the customs administration closer to taxpayers and encourage voluntary compliance and support for the inspection function, the program will: (i) design and implement a mass media information campaign on the custom administration's work to control contraband; (ii) launch a customized information campaign tailored to business operators, presenting the new inspection and facilitation techniques and encouraging voluntary compliance; and (iii) design new, transparent procedures for users, providing maximum information through the customs service's website.

6. Support for the General Property Registry Directorate (US$1 million)

2.9 This component will seek to boost the amount of taxes based on the actual and the transfer value of real property, by means of a system of streamlined assessments. Activities will cover two core aspects related to the authorities' strategy in the sector: first, to serve as an important hub for coordinating with a component to be developed under the PRONAT program; and second, to serve as a cornerstone of the strategy to reduce the country's fiscal gap.

2.10 *Linkage between the General Property Registry Directorate (DCBP) and the General Revenue Directorate (DGI)*. This activity will provide resources for defining procedures and an IT system that allows access to and transfer of data between the DCBP and the DGI within the MEF. This linkage will complement the data transfer system being supported by the PRONAT program between the Public Registry and the DCBP and will make it possible to provide owners, or users, with the certification required by the banking system to grant mortgages in shorter periods and with greater legal security.

2.11 This subcomponent will entail setting up a database that is shared by the Public Registry, the DCBP, and the DGI; the database will include information relating to the process of property titling, title registration in the Public Registry, and the property's assessed tax value. In parallel, the program will finance the development and implementation of an IT component that will enable the three institutions to use and access the shared database. The subcomponent also includes procurement of IT equipment to access and use the database, creation of an interinstitutional communication network (Intranet), and a training program for staff that will have access to and operate the system.

2.12 *Program to update the property registry*. The property tax database for the metropolitan area of Panama City and the country's other urban areas needs to be updated, since it was last revised 30 years ago. This will make it possible, at the same time, to replicate and extend to all the country's other urban areas the methodology used in a pilot program to assess property, conducted in late 2001 in a section of Panama City.

2.13 To explain the goals and scope of this component to taxpayers, it was agreed with the MEF authorities that it would include an information campaign targeted at civil society on implementation of the component.

B. Cost and financing

2.14 The operation has a total cost of US$13.4 million, of which the Government of Panama would provide US$3.4 million, equivalent to 25.4% of the total, and the Bank would finance US$10 million, equivalent to 74.6% of the total. The Bank's resources would be drawn on the Single Currency Facility of the Ordinary Capital, on a reimbursable basis, pursuant to applicable provisions.

2.15 A break-down of the budget by component can be found in the program files. The following table provides a consolidated budget for the program:

Table 1. Summary of Costs by Component and Source of Financing
(thousands of U.S. dollars)

Investment category	IDB	Local contribution	Total	%
1. Strengthening of the MEF	100.0	115.0	215.0	1.60
2. Strengthening of financial management	2,090.0	360.0	2,450.0	18.28
3. Modernization of the investment system	1,697.6	456.2	2,153.8	16.07
4. Strengthening of the tax system	2,566.0	816.5	3,382.5	25.24
5. Strengthening of the customs system	2,154.4	294.3	2,448.7	18.27
6. Support for the General Property Registry Directorate	700.0	300.0	1,000.0	7.46
7. Coordination, administration, and start-up of the program	92.0	473.0	565.0	4.22
8. Final evaluation	300.0	0.0	300.0	2.24
9. Audit	200.0	0.0	200.0	1.49
10. Contingencies	0.0	500.0	500.0	3.73
Subtotal:	9,900.0	3,315.0	13,215.0	98.62
11. Financial costs	100.0	85.0	185,0	1.38
Credit fee		85.0	85.0	0.63
Inspection and supervision	100.0		100.0	
TOTAL	10,000.0	3,400.0	13,400.0	100.00
Percentage	74.63%	25.37%	100.00%	

III. PROGRAM EXECUTION

A. Borrower, guarantor, and executing agency

3.1 The borrower will be the Republic of Panama, and the executing agency will be the Ministry of Economic Affairs and Finance (MEF), by way of an interagency coordination committee located in the MEF and supported by a technical secretariat and a program coordination unit, all of which were established pursuant to Decree 36 of 5 June 1997 (copy available in project files). The proposed structure was used successfully in phase I and produced on-time execution within budget; despite the change in government, there were no delays in execution. This matrix-style structure of organization involves career civil servants who will be responsible for the system's operation after start-up, thus reducing overhead costs and ensuring program sustainability in the post-execution phase.

B. Program execution and administration

3.2 To facilitate program execution, a logical framework has been prepared, along with operating regulations containing the framework for execution, schedule, and itemized budget for each activity and terms of reference for all scheduled consulting services, including the consultants' professional profile, key functions and activities, deliverables, and expected outcomes (see technical files).

1. Interagency Coordination Committee — execution at the policy level

3.3 The Interagency Coordination Committee (COIN) is the program's highest decision-making body; it comprises the Deputy Ministers for Finance and Economic Affairs and the Comptroller General in their respective areas of responsibility. As a special condition precedent for disbursement under the National Accounting Directorate subcomponent of component 2, the executing agency is to have signed an interagency agreement with the Office of the Comptroller General of the Republic (CGR) defining the transfer of government accounting functions. The COIN holds political responsibility vis-à-vis the Congress and the citizenry for execution of the program. This execution structure, it should be noted, worked efficiently and effectively for phase I and entails no incremental cost for the government. The COIN, which meets whenever deemed necessary for execution of the program, has the following functions:

a. provide guidance for program execution in accordance with the government's financial management and macroeconomic policies;

b. approve and follow up on action plans submitted by its technical secretariat;

c. authorize the technical secretariat to hire consulting firms and individual experts and to purchase equipment as outlined in the action plans, according to terms prepared by the members of the technical secretariat and signed by the government and the Bank, which are summarized in the program's operating regulations and are administered by a specialized agency engaged specifically for this purpose;

d. ensure that subprograms and components entrusted to each unit are implemented comprehensively, avoiding any sort of isolated management by the directorates involved; and

e. establish and evaluate the program's progress so as to indicate any remedial action needed to achieve its objectives.

2. Technical Secretariat - execution at the operations and technical level

3.4 The technical secretariat comprises technical staff of the MEF and its units, and is responsible for effecting the investments financed by the program. It includes national coordinators appointed by each ministry, unit, or directorate. The coordinators are permanent members of the directorate, e.g., the director, deputy director or specialist with technical responsibility in the area of work financed by the program. Each of the six components and five subcomponents of component II (financial management) has a national coordinator who has worked in this capacity during phase I, with responsibility for implementation of their own component. To ensure internal consistency within the program, the coordinators will meet as necessary—in their capacity as members of the technical secretariat—to report on the program's technical execution. Their full-time dedication to program execution is a guarantee for the technical and managerial sustainability of the investments. This same execution structure worked efficiently and effectively in phase I of the program and entails no additional cost for the government. The technical secretariat will have the following specific functions:

a. submit for the COIN's consideration the necessary action plans to carry out the program in keeping with the logical framework and operating regulations;

b. submit for the COIN's authorization all contracts for consulting services and for the procurement of program-related goods and services (including the evaluation and recommendation for the respective hiring/procurement) in accordance with the action plans approved by the COIN on the basis of the logical framework and operating regulations;

c. prepare and present to the COIN progress reports on the program according to an established schedule;

d. represent the COIN vis-à-vis the Bank, the program coordination unit, and the specialized agencies (CIAT and the United Nations Development Programme

[UNDP]) in all program-related matters, i.e., the day-to-day management of program execution;

e. serve as technical liaison among the COIN, program coordination unit, and the specialized agencies (CIAT and UNDP) to ensure harmonized implementation of the program; and

f. ensure compliance with the actions to be performed by the Program Coordination Unit (PCU) and the specialized agencies for proper execution of the program, in the daily management of execution.

3.5 Each member of the technical secretariat manages activities that are essential to the program and as well as the daily work of their offices. For purposes of program execution, the national coordinator in each directorate receives support from consulting firms and individual experts hired by UNDP (except in the component to strengthen the tax system, where CIAT provides the experts directly as part of its contract with the government) (see paragraph 3.6).

3. Program Coordination Unit – policy execution

3.6 The COIN and the technical secretariat will be linked by a small centralized administrative unit that ensures cohesion in execution of all the program components. The Program Coordination Unit (PCU) comprises a national general coordinator, appointed by the Minister for Economic Affairs and Finance, and two professionals and an administrative assistant seconded from the Panamanian civil service in accordance with local employment rules and conditions. The PCU is the interlocutor between the COIN, the technical secretariat, the Bank, and the specialized agencies. This PCU worked efficiently and effectively in phase I of the program and entails a minimal incremental cost for the government. Its responsibilities are:

a. comply with decisions of the COIN concerning administrative management of the program;

b. arrange with the specialized agencies to process contracts prepared by the members of the technical secretariat (in accordance with the operating regulations) and approved by the COIN (in accordance with the action plans);

c. arrange with the Bank to process disbursement requests from the specialized agencies and the PCU for proper execution of the program as described in the operating regulations;

d. provide managerial follow-up for attainment of program objectives, targets, and plans, as specified in the logical framework and set forth in detail in the operating regulations;

e. prepare and draft the reports required by the Bank and the COIN; and

f. prepare, and submit for approval by the COIN, the financial reports required by the program, which will be submitted to a private audit firm selected through a competitive process.

3.7 During phase I, the PCU received support in the administration and technical work of component IV (strengthening of the tax system) from a CIAT technical team, and the government wishes to continue with the same structure for phase II. CIAT provides its own experts or consultants for the activities described in the logical framework and conducted jointly with the DGI and the Bank (see details in the operating regulations). These activities include: coordination and management of the processes of change in the DGI; analysis and development of tax codes and legislation and tax-revenue flows; organizational development and analysis; development of the taxpayer registry; inspection; specification, development, installation, and testing of inspection software; and transfer of these skills and knowledge to the DGI by means of training programs and ongoing institutional development. Furthermore, CIAT is to prepare draft contracts for consulting services, procure goods and related services, make the respective payments, and prepare the financial statements required by the executing agency and by the Bank. As a special condition precedent for disbursement under component IV, CIAT is to have been engaged under terms acceptable to the Bank.

3.8 With regard to the administration of procurements for execution of the rest of the program, the PCU has been successfully receiving support from a specialized agency, the United Nations Development Programme (UNDP). The UNDP manages and supervises the administrative services (including hiring and payment of consulting firms, individual experts and suppliers; preparation of financial reports; fund advances; and delivery of supporting documentation). The government has asked the Bank to maintain this structure for phase II. As a special condition precedent for disbursement of program proceeds, the UNDP is to have been engaged under terms and conditions acceptable to the Bank.

3.9 Considering the diversity of activities to be conducted under the program, operating regulations have been prepared that contain standards and terms of reference for the execution of phase II. The entry into force of these operating regulations will be a special condition precedent for the first disbursement.

C. Revolving fund

3.10 The amounts disbursed in the form of a revolving fund, up to a maximum of 5% of the loan amount, are to be managed by the PCU in a separate, special bank account in the program's name. Within the 60 days following the close of each six-month period, semiannual reports are to be presented on the status of funds in the power of the MEF.

D. Procurement of goods and services

3.11 Goods and consulting services are to be procured in accordance with the Bank's procedures. International competitive bidding will be used for procuring goods valued at US$350,000 equivalent or more and consulting services valued at US$200,000 or more. Procurements for lesser amounts will be governed, in principle, by national legislation, provided such legislation does not contradict the Bank's basic procurement guidelines. This operation does not call for any construction work. Annex I contains the program's procurement plan.

3.12 The government has requested, as an exception to the Bank's procurement guidelines, that CIAT be hired directly to execute component IV (modernization of the tax system), for the following reasons:

a. The government will continue to work with CIAT in the execution of other related activities financed by the government. Switching to a different executing agency for this phase would result in administrative overlap and it would complicate lines of communication and distribution of work between activities funded under the loan and the tax-related activities funded by the government but not directly related to this operation.

b. The experience working with CIAT has been successful from a technical standpoint. CIAT has a broad view of tax administration in the region, since it has lent support for the harmonization of tax systems of countries whose economies are moving towards integration;

c. Headquartered in Panama, CIAT is a non-profit-seeking agency with a budget that is 70% financed independently (from intergovernmental sources) and possesses solid capacity for research, training, and policy formulation. It offers a technical comparative advantage based on: the level and experience of its professional staff, who have been trained to provide advice in all tax-related matters; its accumulated knowledge of tax systems in Latin America; its access to experience in its member countries, which facilitates the international exchange of knowledge; and its specific experience with the Panamanian tax system. As a nonpolitical entity, its specific mandate is to build the capacity of Latin America's countries to administer efficient and equitable systems; and

d. CIAT would provide technical services and would effect the necessary procurements and contracts for execution of component IV, following Bank procedures, ensuring at the same time the technical transfer of knowledge to ensure the operation's sustainability.

3.13 Also as an exception to the Bank's procurement guidelines (subject to approval by the Board of Executive Directors), the government has asked that UNDP be maintained as the administrator of procurements and contracts during phase II, rather than have the MEF expand its administrative staff temporarily. The following reasons are presented in support of this request:

a. The government has executed and will continue to execute programs with various sources of financing and with administrative support from UNDP. It has preferred to manage procurements in this way, so as not to increase its permanent staff. To cover the additional, temporary tasks related to execution, it will hire full- and part-time technical specialists who will serve as a conduit for technical knowledge, over the long term, to the permanent staff of the directorates involved. The terms of reference and bid packages will be prepared by the technical secretariat, approved by the COIN, coordinated by the PCU, and administered by UNDP;

b. The government worked with UNDP in phase I, which was executed satisfactorily and on schedule, despite the redefinition of some fiscal and economic policy guidelines subsequent to the change of government in 1999. Execution cost was calculated to be 14% less, compared with the cost of MEF managing procurement, even factoring in the 3% fee charged by UNDP for its services.

c. The project team evaluated UNDP's performance during phase I (see project files) and identified the following advantages: (i) transparency, efficiency, and rapidity in procurement processes; (ii) effective coordination of all activities, including those financed by the Bank and self-financed ones; (iii) support for project monitoring, planning, and administrative management; (iv) UNDP absorbed the cost of clearing deposits of checks and transfers, import tax exemption, and the respective 5% in taxes; (v) a comparative advantage in its access to international consultants; and (vi) on-line access in real time to contributions to the UNDP Panama account, and to the financial execution of the program.

3.14 For activities executed by UNDP, the agency must procure goods and related services as well as consulting services in accordance with applicable Bank policies and procedures. Furthermore, the agreement to be signed by the MEF and UNDP should contain the following provisions:

a. Open specific, separate bank accounts for handling the loan proceeds and local counterpart contributions for this program;

b. Keep separate financial and accounting records on the use of program resources, broken down by source of financing;

c. Make project files available to Bank staff, for inspection by external auditors engaged by the executing agency, pursuant to the program's contractual clause on external auditing.

3.15 UNDP would be gradually phased out from program administration, with its role being taken over by the Program Coordinating Unit (PCU) at the MEF. UNDP's full separation from the project would begin as of year 2, and would coincide with the midterm evaluation. Advances to the UNDP account would be discontinued as of month 18 of execution, and as of month 21, the PCU would begin to receive consultant contracts directly from the MEF directorates and units taking part in the program. At the same time, the PCU would begin to request the necessary advance approvals for disbursements so as to avoid any lag in the flow of funds under the program. As of month 24, the PCU would be administering all consulting contracts and the revolving fund. Between months 21 and 24, UNDP would receive a fee to administer contracts that had not yet been transferred to the PCU.

E. Execution period and disbursement schedule

3.16 The disbursement period would last a minimum of three years and a maximum of four, except for the resources to cover the final evaluation and audit referred to in paragraphs 3.17 and 3.19. This period is considered reasonable to complete all the proposed activities and disburse the proceeds, based on execution experience under phase I. The period would begin to run as of the effective date of the loan agreement. The tentative disbursement schedule is presented in the following table:

TABLE 2. DISBURSEMENT SCHEDULE

(THOUSANDS OF U.S. DOLLARS)

	COMPONENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
1.	Strengthening of the MEF	125.0	90.0			215.0
2.	Financial management	940.0	1,049.0	351.0	110.0	2,450.0
3.	Investment system	1,007.0	620.0	316.5	210.3	2,153.8
4.	Tax system	1,106.0	1,075.2	832.1	369.2	3,382.5
5.	Customs system	1,154.4	868.0	294.3	132.0	2,448.7
6.	General Property Registry Directorate	450.0	324.0	180.0	46.0	1,000.0
7.	Coordination	220.0	115.0	115.0	115.0	565.0
8.	Evaluation		115.0		185.0	300.0
9.	Audit	50.0	50.0	50.0	50.0	200.0
10.	Other	142.0	28.0	515.0		685.0
	TOTAL	5,194.4	4,334.2	2,653.9	1,217.5	13,400.0

F. Retroactive recognition of expenses against the counterpart

3.17 As an exception to the guidelines on retroactive recognition of expenses, the government has asked that the Bank recognize as part of the counterpart the expenses incurred by the MEF up to US$550,000 equivalent to hire consultants and procure computer equipment, maintain the executing agency, prepare all the project components, and remodel the customs infrastructure, provided that the expenses were incurred after the date of the official request (13 August 2001) and before the date of approval of the operation by the Bank's Board of Executive Directors and provided that the procurement procedures were substantially similar to those of the Bank (see details in the project archives).

G. Monitoring and evaluation

3.18 The Bank will supervise execution of the operation by way of its Country Office in Panama and technical administration missions under the project team's responsibility. The missions will examine the progress made towards attaining objectives and targets, complying with schedules, and addressing contingencies of execution, on the basis of the annual work plans set forth in the logical framework (Annex II) and the operating regulations (see project files).

3.19 The executing agency is to submit the following reports to the Bank: (i) semiannual progress reports containing a brief description of progress made during the previous six months, outcomes in terms of performance indicators, identification and explanation of deviations therefrom, proposals for any modifications, and a list of procurements, training activities carried out, and principal contracts; and (ii) a final report containing at least: program achievements, features that limited execution, lessons learned, and recommendations.

H. Indicators and expected outcomes

3.20 To monitor execution and the attainment of objectives and targets, a set of progress indicators was identified. These indicators will be monitored in the reports described in the previous paragraph. A list of the outcomes expected from program execution is presented in Annex II (logical framework).

I. External audit

3.21 The annual audited financial statements of the program are to be presented by the executing agency within the 120 calendar days following the end of each fiscal year and during the program's execution period. The audit will be conducted in accordance with terms of reference approved in advance by the Bank, by an independent auditing firm acceptable to the Bank. The cost of the audit will be defrayed out of the loan proceeds. The auditing firm will be selected and hired in accordance with the Bank's procurement procedures for external audits.

J. Midterm review and final evaluation

3.22 To measure the program's achievements and outcomes and make any necessary adjustments to projects in light of experience gained, a midterm review would be conducted by independent consulting services hired by the executing agency

24 months after the entry into force of the loan agreement, or when the equivalent of 50% of the Bank's financing has been disbursed, whichever occurs first.

3.23 A final evaluation of impact will also be conducted, to begin when at least 90% of the financing resources has been disbursed. The evaluation should be completed within six months after the last disbursement for activities, not including the evaluation. The terms of reference for the evaluation will be based on the impact indicators contained in the logical framework (Annex II). The necessary resources have been included in the financing.

IV. VIABILITY AND RISKS

A. Institutional viability and sustainability

4.1 The program's viability is bolstered by the fact that the MEF, as the executing agency and in its capacity as the government's main source of revenue, enjoys support at the highest political level and has positive experience with the execution of phase I. Pressure from outside the country with regard to transparency, tax havens, economic opening, and free trade make this project especially timely, in that it opens to public scrutiny national accounts, modernization of fiscal management, and more efficient customs and revenue services and property valuation. At the same time, pressure to finance the recurrent costs of its social investments and to control and reduce the level of borrowing results in priority being assigned to programs to raise tax revenue of all types, improve debt management, and increase returns on public investments. It should be noted that the financing of this operation falls within the limits set by the government for external borrowing and the availability of local counterpart contributions for execution.

B. Socioeconomic viability

4.2 The program will promote equity directly by spreading out the tax burden and indirectly by providing reliable funding for the government's social and equity-targeted programs, such as education and social investment. Civil servants who work in the area of public fiscal management will need to change their approach in order to ensure the institutionalization of a public and transparent culture geared towards user satisfaction, accountability, and promotion of an efficient and open economy for managing business. Consolidating the process already under way will entail building solid local capacity, including awareness-building among civil society.

C. Financial viability

4.3 Implementation of a fiscal and economic management system will increase efficiency and transparency in the use of public resources and other resources available to the government. It will also make it possible to establish coherent linkages between actions from one fiscal year to the next, with long-term economic objectives. The development and implementation of programming and evaluation mechanisms, through the preparation of indicators, will improve the programming of expenditures and make it possible to gauge their efficiency and their articulation with medium- and long-term objectives. In financial terms, the resources invested in tax valuation and collection, better management of public investments, and the conservation and good management of finance and debt will have a positive economic and fiscal impact for the country.

D. Environmental and social viability

4.4 The project team conducted a strategic environmental evaluation during the preparation of phase II. No direct environmental impacts or adverse social impacts are expected to result from execution or operation of the program. On the contrary, inasmuch as component III (SINIP) will institutionalize a rigorous system for analyzing public-sector investment projects, a social and environmental management proposal has been adopted that will reflect the social and environmental considerations required by the Bank. In October 1999, the Bank approved loan 1222/OC-PN in the amount of US$15.8 million, aimed at building the management capacity of the National Environmental Affairs Authority (ANAM) and of the interagency system dealing with environmental affairs. Only investments that are environmentally feasible will be entered into the SINIP for financing, i.e., those that have the necessary environmental permits and that have fulfilled the analytical procedures of the ANAM and the requirements of Bank policies. The operating regulations will include Bank-formulated terms of reference for the social and environmental analysis to ensure that they are incorporated in the SINIP's project analysis manuals.

4.5 In meeting these requirements, the program will yield significant social and environmental benefits by promoting public awareness and disseminating information to interested groups on environmental and social issues related to investment projects under the SINIP component; the SINIP data network will be part of the government's public information system.

E. Benefits

4.6 The program will help the authorities to consolidate a management system as a tool for strengthening modernization of the State in the areas of self-financing, decentralization, citizens' participation, and economic and fiscal auditing. It will also enhance the quality of institutional performance, promoting a culture of responsibility and the duty to pay taxes; it will make for more efficient governance; it will lower the costs of public administration; and it will sustain the financing of the government's social programs by raising the level of tax revenue from three main sources: income, customs, and real property.

F. Risks

4.7 The elections and the possible change of government in 2004 pose a risk to the operation's continuity, but regardless of the government in office, it will have to abide by the National Reactivation and Fiscal Responsibility Act negotiated and approved in May 2002. Furthermore, there is agreement on the need for the advances that will be secured under phase II. There are no grounds to think, a priori, that this institutional structure and the imperative of modernizing will disappear if there is a change in government. For any government, an efficient and fair tax collection system and control of finances are effective tools for managing the economy and improving governance.

4.8 To the extent that the activities carried out are useful and operational for such purposes, spaces would be created for their sustainability, without losing sight of the fact that what is needed is to create conditions to generate a change in the institutional culture. The program's focus has been placed on guaranteeing institutionalization of the processes by means of training and the systematization of processes, which are key aspects for its continuity during the next government. The program incorporates a series of measures based on lessons drawn from experience to ensure the continuity of the function and institutionalization of modern fiscal and economic management.

4.9 The program will help to introduce changes in government institutions and in civil society. It is hoped that, with values such as the duty to pay taxes, expectations will be generated that promote the continuous exercise of their fiscal rights and responsibilities. The dissemination component is intended to build the necessary consensus in civil society for the administrative reforms required by the program. The advances posted through the National Dialogue could help to shore up that consensus. It should be noted that the change of government during phase I did not have any significant impact on execution.

4.10 The MEF regularly consults with the participants and beneficiaries of the process, so the system should enjoy broad-based consensus by the time Panama holds its next elections. To minimize the risk, it is proposed that an executing unit move forward with institutionalization of the program on a sustained basis during the end of the current government. The members of the unit will be technical experts in the field, supported over the long term by international agencies such as CIAT. The financing of the executing unit and of the program's work plan extends beyond the mandate of the current government and accordingly this will diminish the risk of a change in direction.

4.11 Cooperation and coordination between the CGR and MEF are a precondition for ensuring complementarity in the fiscal and economic management designed for collecting and managing a high percentage of the State's revenue. The CGR is an institution with very good working conditions and considerable autonomy, designed to audit and control government spending. Fragmentation and overlapping of functions could weaken the credibility and legitimacy of both agencies. The scope of action and responsibilities of each entity were clarified. There is an agreement between the two institutions that defines the common targets and areas of cooperation. The agreement was signed on 17 July 1995 and is still in force (see project files). In addition, the CGR has been (and continues to be) a member of the COIN in its respective areas of responsibility, and it is responsible for holding meetings to clarify the work of each institution in the area of fiscal and economic management.

PROCUREMENT PLAN
(PN-0147)

Main Procurement Items	Financing	Type	Prequalification	Public Notice
A. Strengthening of financial management				
– Individual consultants (average contract – US$30,000)	IDB	CSP	No	Second quarter 2003
– Training	IDB	CSP	No	
– Equipment and software	IDB/LC	ICB	No	
B. Strengthening of tax system				
– Individual consultants (average contract - US$35,000)	IDB/LC	CSP	No	Third quarter 2003
– Specialized agency (CIAT)	IDB/LC	DC	Yes	
– Equipment (average contract - US$120,000)	IDB/LC	ICB	Yes	
C. Strengthening of customs system				
– Individual consultants (average contract - US$35,000)	IDB/LC	CSP	No	Third quarter 2003
– Training	IDB/LC	CSP	No	
– Equipment (average contract - US$250,000)	IDB	ICB	Yes	
D. Modernization of investment system				
– Individual consultants (average contract - US$25,000)	IDB/LC	CSP	No	Fourth quarter 2003
– Training	IDB/LC	CSP	No	
– Equipment (average contract - US$200,000)	IDB/LC	ICB	Yes	
E. Support for DCBP				
– Individual consultants (average contract - US$15,000)	IDB/LC	CSP	No	First quarter 2004
– Training	IDB/LC	CSP	No	
– Equipment (average contract - US$200,000)	IDB	ICB	Yes	
F. Executing unit				
– Individual consultants (average contract - US$120,000)	IDB	CSP	No	Fourth quarter 2002
– Specialized agency (UNDP)	IDB/LC	DC	Yes	

Key:

IDB:	Inter-American Development Bank
LC:	Local contribution
ICB:	International competitive bidding
LCB	Local competitive bidding
CSP:	Competitive selection procedure
DC:	Direct contracting, as an exception to the Bank's procurement guidelines

PROGRAM TO STRENGTHEN AND MODERNIZE ECONOMIC AND FISCAL MANAGEMENT, PHASE II (PN-0147)
LOGICAL FRAMEWORK

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL OF THE PROGRAM			
Enhance the efficiency, effectiveness, and equity of fiscal management in the public sector.	Reduction in financial management costs. Adoption of more strategic planning in public finances.	Administrative budget and annual report of the MEF.	None.
INSTITUTIONAL STRENGTHENING OF THE MEF			
PURPOSE OF SUBPROGRAM 1			
Regulatory framework and organization to facilitate implementation of institutional policies and strategic planning in public finances established by end of year 2.	Documentary existence of regulations.	Annual report of the MEF.	None.
STRENGTHENING OF FINANCIAL MANAGEMENT			
PURPOSES OF SUBPROGRAM 2			
Optimization of financial management consolidated with regard to public spending, investment, and internal and external indebtedness by end of year 4.	Budget executed more quickly and at a lesser cost in year 4 than in year 1.	Midterm and final evaluations and annual reports of the MEF.	Elections will not change MEF policy.
BUDGET DIRECTORATE			
The national budget programming structure is such that the budget is the means to manage and monitor physical and financial targets and it incorporates the use of management indicators by program, sector, and area of public administration by end of year 4.	Documentation on program codes Government's action/development plan reflected in the budget. Government's action/development plan has physical targets and indicators by program Outline of evaluation of the scope of the targets.	Written documents.	None.
GENERAL TREASURY DIRECTORATE			
Structures are in place that reduce the government's current financing expenditures as a result of full implementation of the Treasury and the integrated account methodology by end of year 4.	Treasury is paying suppliers in 30 rather than 120 days. Number of current accounts reduced from 3,200 to one per ministry, with an average daily balance of US$150 million.	Current accounts of the SIAFPA. Current accounts of the Central Bank.	None.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
PUBLIC DEBT DIRECTORATE			
The functions of contracting, recording, monitoring, and paying off of debt have been delimited and reviewed, in accordance with the agencies and units involved in the process, especially the Public Debt Directorate and the Treasury of the MEF by end of year 4.	Documentation showing the allocation of responsibilities between the MEF and CGR with regard to monitoring of their debt. Streamlining of the debt recording and payment process. Methodology for quality control of data entered in the SIAFPA.	Manuals and documents.	None.
NATIONAL ACCOUNTING DIRECTORATE			
The interinstitutional agreements needed in order to achieve full operation of the Directorate have been defined by end of year 3.	Manual of procedures for verifying accounting information. Methodology for consolidating financial statements of the public sector. Methodology for economic and financial analysis of the consolidated financial statements. DNC training plan.	Manuals.	None.
NATIONAL DIRECTORATE FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM (SIAFPA)			
The SIAFPA has been fine-tuned and extended to the decentralized nonfinancial public sector by means of interfaces with other related systems, such as revenue, investment, and the integrated account of the Treasury by end of year 3.	The system is operating according to specified standards. Back-up and contingency plans for the SIAFPA have been designed, approved, and are operating according to specified standards.	Independent report of a technical audit on the system. Contractual assurances from the system provider.	None.
STRENGTHENING OF THE PUBLIC INVESTMENT SYSTEM			
The Investment Programming Directorate is efficiently and effectively exercising the planning, programming, and control of the National Public Investment System (SINIP) so as to make investments that yield the highest returns and are the most consistent with the government's macroeconomic targets, by end of year 4.	The SINIP is supported by new legislation and technical and operational regulations and by an adequate institutional organization, duly interlinked with the budget and debt system by end of year 4. The SINIP covers 100% of projects of the central government and of public agencies and enterprises.	Management results contained in the annual report of the MEF.	None.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Public investment project bank is producing information to set up a control tower covering the entire network of institutions under the coordination of DPI.	The project bank is organized and operating in the main government institutions and is integrated in the SIAFPA and the control tower, with coverage of 80% of public investment projects by end of year 2. Development of the SINIP in the municipal institutional system at the department seat level by end of year 3.	Annual report of the MEF.	None.
STRENGTHENING OF THE TAX SYSTEM			
Tax administration is efficient, effective, and equitable in the collection of internal taxes.	Annual increase in collection levels of approximately 2% by end of year 4 of execution.	Internal statistics.	None.
STRENGTHENING OF CUSTOMS ADMINISTRATION			
A professional, modern customs administration that is geared towards users, by end of year 4.	ISO 9000 certification by end of year 4.	Receipt of certification. Annual report of the MEF.	None.
Lower transaction costs for foreign trade.	Lower estimated level of transaction costs for trade with Panama.	Macroeconomic study.	None.
SUPPORT FOR THE GENERAL PROPERTY REGISTRY DIRECTORATE			
The General Revenue Directorate (DGI) has access to updated information for calculating real property taxes, required for fiscal certification of real property transactions, by end of year 4.	Database accessible to the public. Increase in the collection level of taxes on property assessments and transactions.	Proof of access. Collection accounts.	Using property-registry information for calculating taxes will not hinder the gathering of data for the property registry.